

VZCZCXRO2152  
RR RUEHBC RUEHDE RUEHIHL RUEHKUK  
DE RUEHGB #1484/01 1331809  
ZNY CCCCC ZZH  
R 121809Z MAY 08  
FM AMEMBASSY BAGHDAD  
TO RUEHC/SECSTATE WASHDC 7331  
INFO RUCNRAQ/IRAQ COLLECTIVE  
RHMFISS/HQ USEUCOM VAIHINGEN GE  
RHMFISS/HQ USCENTCOM MACDILL AFB FL  
RUEKJCS/DIA WASHDC  
RUEKJCS/SECDEF WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 03 BAGHDAD 001484

SIPDIS

E.O. 12958: DECL: 05/12/2018

TAGS: [EFIN](#) [PGOV](#) [IZ](#)

SUBJECT: 2008 KRG BUDGET: \$6.4 BILLION AND SMALL GAINS IN  
TRANSPARENCY

Classified By: Erbil RRT U.S. Team Leader Jess Baily for Reasons 1.4 (b  
,d).

This is an Erbil Regional Reconstruction Team message.

¶1. (C) Summary: The Kurdistan National Assembly (KNA, regional parliament) passed a 7.6 trillion Iraqi dinar (\$6.4 billion) budget to fund the Kurdistan Regional Government (KRG) for 2008. Approval came on April 30, nearly three months earlier than in 2007. The 2008 budget includes 4.7 trillion ID for operating expenses and 2.9 trillion ID in capital projects. KNA members questioned the KRG Minister of Finance for five days on the budget, but their poor understanding of the budget, the government's withholding of many details about expenses, and party politics undermined the quality of the discussion. The debate will not satisfy many critics, one of whom says that transparency is greater in Baghdad than in Erbil. Nonetheless, the budget debate represented a step toward greater transparency in the KRG, a tendency which the United States is encouraging through assistance programs and engagement by U.S. officials. End summary.

A Budget of \$6.4 billion  
-----

¶2. (U) On April 30, the Kurdistan National Assembly (KNA) passed a budget of nearly 7.6 trillion ID (\$6.4 billion) for the Kurdistan Regional Government (KRG), including the regional presidency, the KNA, 27 ministries, the Board of Investment, and the Regional Security (Asayesh) of Erbil and Sulaimaniyah. The federal budget passed for the KRG was 6.6 trillion ID, dividing into 3.6 trillion ID for operating expenses and 3.0 trillion ID for capital. The main difference in the KNA's budget is an additional 1 trillion ID for operating expenses. It does not include an allocation for the Peshmerga security forces, as the KRG and GoI are still negotiating over funding these regional guards from the Ministry of Defense. The budget includes nearly 4.7 trillion ID for operations and 2.9 trillion ID for projects, including 495 billion directly to the provinces of Erbil (180 billion), Dohuk (115 billion) and Sulaimaniyah (200 billion). Nearly 60 percent of operating expenses go to civil service salaries and benefits.

¶3. (U) Based on figures provided by the Minister of Finance Sarkis, 85 percent of the budget funds the regional ministries as follows:

- (billion ID)	Operations	Capital	Total
Finance	934	217	1,151
Electricity	409	508	917
Education	795	104	899

Municipalities		272		576		848
Interior	627		32		659	
Awqaf/Religious Affairs		469		1		470
Housing		62		354		416
Higher Education	192		174		366	
Health		231		131		362
Martyrs/Anfal		279		4		283
Agriculture	116		49		165	
Water Resources	13		84		97	

The capital budget reflects the KRG,s priorities of improving electricity and supplies of drinking water.It also includes the hiring of 29,800 new civil servants, more than 9,000 in the Ministry of Education. The increase in new civil servants is in line with the federal budget for the KRG.

¶4. (U) The KRG bases its revenue and budget numbers on those in the 2008 GoI budget. The 13-page narrative provided to KNA members and the media reiterates the KRG,s concerns over the amount of federal expenses and how the GoI calculates the region,s 17 percent, but it reports that interventions by KRG Prime Minister Nechirvan Barzani and GoI Deputy Prime Minister Barham Salih &sorted out these shortcomings.8 It highlights the discrepancies in estimates of the KRG,s customs revenues ) the KRG estimated 333 billion ID, while the GOI estimated 557 billion ID. The federal budget revenue for the KRG consisted primarily of 153 billion ID for taxes and 403 billion ID for other revenue, including oil sales. It reminds members that any increase or decrease in the Iraqi federal budget will affect the Kurdistan region.

KNA Debate: Mixed Reviews

BAGHDAD 00001484 002 OF 003

¶5. (U) Approval of the 2008 budget followed five days of debate within the KNA, much of it televised on the KRG,s public channel. For the last several months, journalists, civil society organizations and several KNA members have clamored for increased public discussion of the budget and unification of the two finance ministries prior to such discussion. Several members of the KNA also called for individual ministries to be present to answer questions, but Minister of Finance Sarkis Aghajan responded that the law requires the Ministry of Finance to represent the government during the budget discussion. In the end, Sarkis, Minister of State of Finance and Economy Bayiz Saeed Mohammad and Minister of Planning Osman Shwani were present.

¶6. (C) In a May 3 meeting with RRTOffs, MoF Sarkis expressed disgust with political maneuverings during the budget review process, particularly on the part of the PUK. He explained that Prime Minister Barzani called KNA Speaker Adnan Mufti (PUK), asking if Sarkis could travel with him to Baghdad. Mufti agreed, but then called a session while the delegation was in Baghdad. The session was quickly adjourned in Sarkis, absence, but to the public it seemed like Sarkis was avoiding the KNA session. When the KNA reconvened the following week, Sarkis said that members took the opportunity to attack him personally, using disinformation and targeted attacks on the KDP. He claimed that he was only asked about oil agreements and customs revenues in KDP-held areas, not about economic trade in PUK areas. He cited one member,s assertion that \$43 million in GoI funds sent by Baghdad for flood repair for two villages went missing. Not only was the amount incorrect, Sarkis said, but the question made ordinary citizens speculate why so much money is spent on just two villages. Sarkis responded the KRG received 43 billion ID for flood damage in Sulaimaniyah, Erbil, and Dohuk, of which 11 billion went to Erbil Province, where the two villages are located. Sarkis also complained that he bore the brunt of the attacks, but is responsible for only 30% of the overall budget, notably the operating funds of Erbil and Dohuk. (Note: the PUK ministers who sat next to him control operating funds for Sulaimaniyah and the capital budget for

the region.) Sarkis added that he will not prepare the ,09 budget without greater participation by the KNA,s Economic and Finance Committee, and he would like other KNA committees to be involved in the budget planning meetings with individual ministries.

¶7. (C) In meetings with RRTOffs, KNA members Sardar Harki and Arslaan Ghafor Sulaiman (both PUK) admitted that many members are ill-informed about budget details and that some questioning was political grandstanding. (In March KNA speaker Mufti told RRTOffs that &only four or five KNA members even know how to read a budget.8) These PUK members also attributed the poor quality of debate to the budget narrative,s lack of detail about expenses in individual ministries. Nonetheless, they asserted that the session was a victory for fiscal transparency and accountability, particularly in comparison to the perfunctory approval process in 2007. They added that the budget was passed nearly three months earlier than last year, and for the first time, the KNA added three &recommendations8 on the budget. These non-binding provisions would raise KRG civil service salaries to equal those of the GoI, increase government-financed mortgages with nominal interest rates, and allocate funds for drought-stricken areas. The Ministry of Finance is now sorting out the costs of these recommendations, which may require funds from the GoI,s planned supplemental.

#### Calls for Transparency Continue

-----

¶8. (C) The debate in parliament will do little to silence KRG critics. Several KNA members from smaller parties took particular aim at government financing of political parties. The Ministry of Finance controls these funds, but the KRG budget presentation did not reveal any details about them, and KNA leadership resisted discussion on the subject. After passage of the budget, Ghafur Makhmuri, a KNA member and secretary general of the National Democratic Union of Kurdistan, circulated a request to put party funding on the parliament,s agenda and forced leadership,s hand by garnering the support of 57 members, including several from the KDP and PUK.

¶9. (U) In a lengthy interview in the April 30 edition of the region,s leading independent newspaper Hawlati, former PUK

BAGHDAD 00001484 003.2 OF 003

Deputy Secretary General Nawshirwan Mustafa ) still an influential figure in PUK circles - asserted that there is more transparency and public debate in Baghdad than in Erbil.

&If we compare Baghdad with Kurdistan and look at the working of the Iraqi parliament and the Kurdistan parliament, we can decide which parliament is more active and which has more democratic debate. Is there more transparency in Iraq or in Kurdistan? Which has transparency in declaring and explaining the allocation and use of the budget and bringing to account those ministers who have been accused of corruption and abuse of power? In all these, democracy and transparency are greater in Baghdad than in Kurdistan.8 He also called on the political parties to disclose how they spent public money.

¶10. (C) Comment: The 2008 budget process constituted a small step toward transparency in the KRG,s public finance. The budget was completed earlier and discussed more openly than in 2007. The KNA played a more prominent and assertive role as the public had the opportunity to see the KNA members question the Minister of Finance for five days. The process also revealed real weaknesses, however. The Ministry of Finance budget narrative offered no detail about expenditures with individual ministries or the subsidies to political parties, which leaves many still wondering, justly or not, where the money goes. KNA members showed little understanding of public finance, and mistrust between the PUK and KDP colored their discussion. Still, it represents an

improvement which the U.S. government actively encourages. In private meetings, RRT officers remind KRG officials that the region,s democratic credentials and appeal to foreign investors depends on greater transparency in public finance. The USAID Local Governance Program has begun improving the skills for budget and finance officials within the ministries and helping KNA members better understand pubic finances. Finally, our support to civil society organizations and independent media nurtures crucial public debate. End comment.  
CROCKER